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Auditability in Procurement: An Analysis of DoD Contracting Professionals' Procurement Fraud Knowledge

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Auditability in Procurement: An Analysis of DoD Contracting Professionals' Procurement Fraud Knowledge

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May 9, 2018

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- Background
- Theoretical Foundation
- Research Methodology
- Research Findings
- Implications of Research
- Recommendations
- Closing Remarks



- The Department of Defense (DoD) obligated over \$298B in FY2016 contracts for supplies and services. (CRS, 2017)
- Deficiencies in DoD contract management result from lack of trained personnel, lack of capable contracting processes, and weak internal controls. (DoDIG, 2009, 2012; GAO, 2006)
- The typical organization loses approximately five percent of its revenues to fraud. (ACFE, 2018)

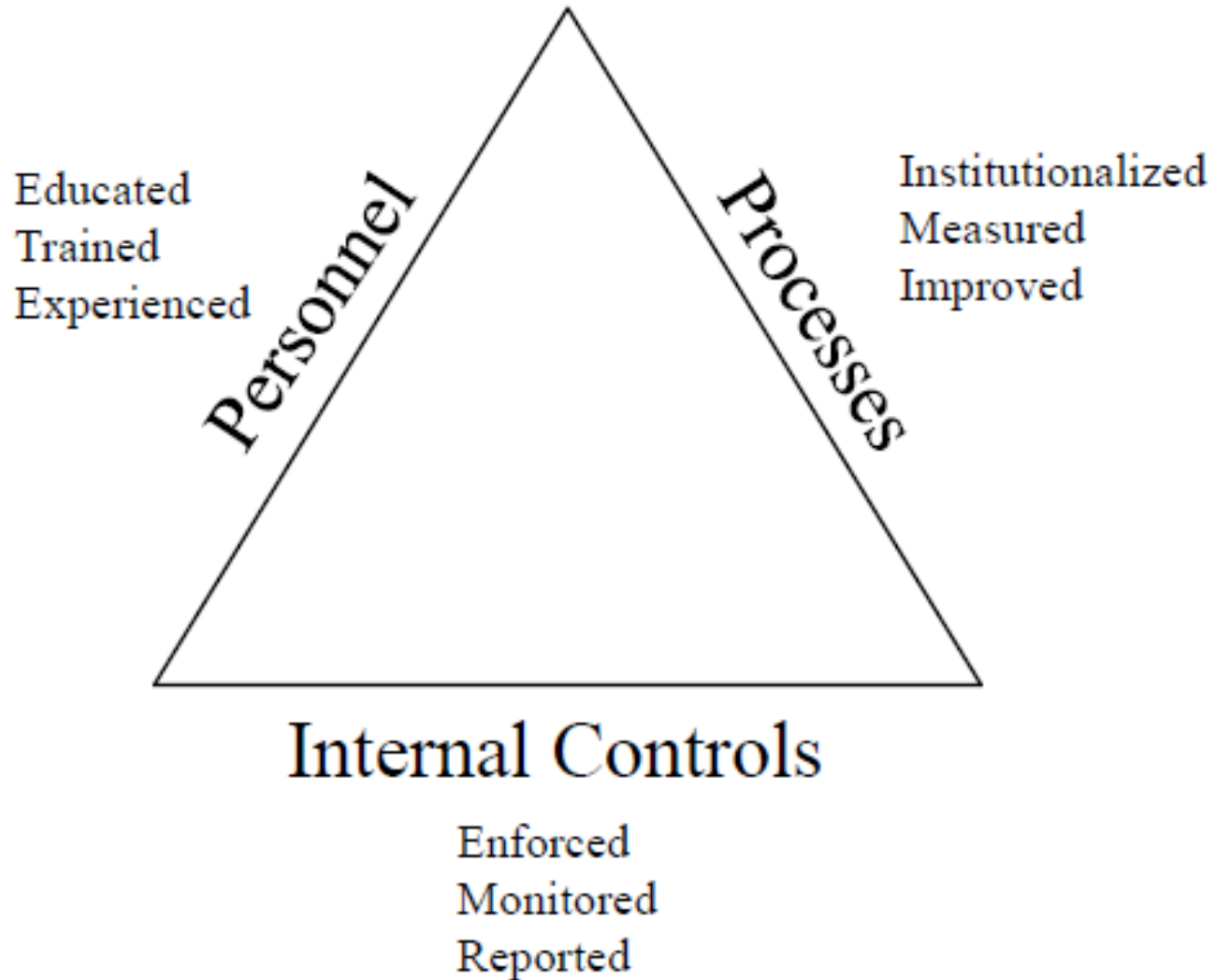


- Knowledge of the procurement process, internal controls, and procurement fraud schemes and their relationship to fraud vulnerabilities is critical.
- “...Bribery and other corrupt behavior by public officials and defense contractors diverts and wastes precious dollars intended to provide critical products and services for our Warfighters...” (Khin, 2018)
- Deborah Lee James, Secretary of the Air Force, stated “**auditability is a fundamental principle of our good stewardship**” [Department of Defense News Service, (2014), p.1].



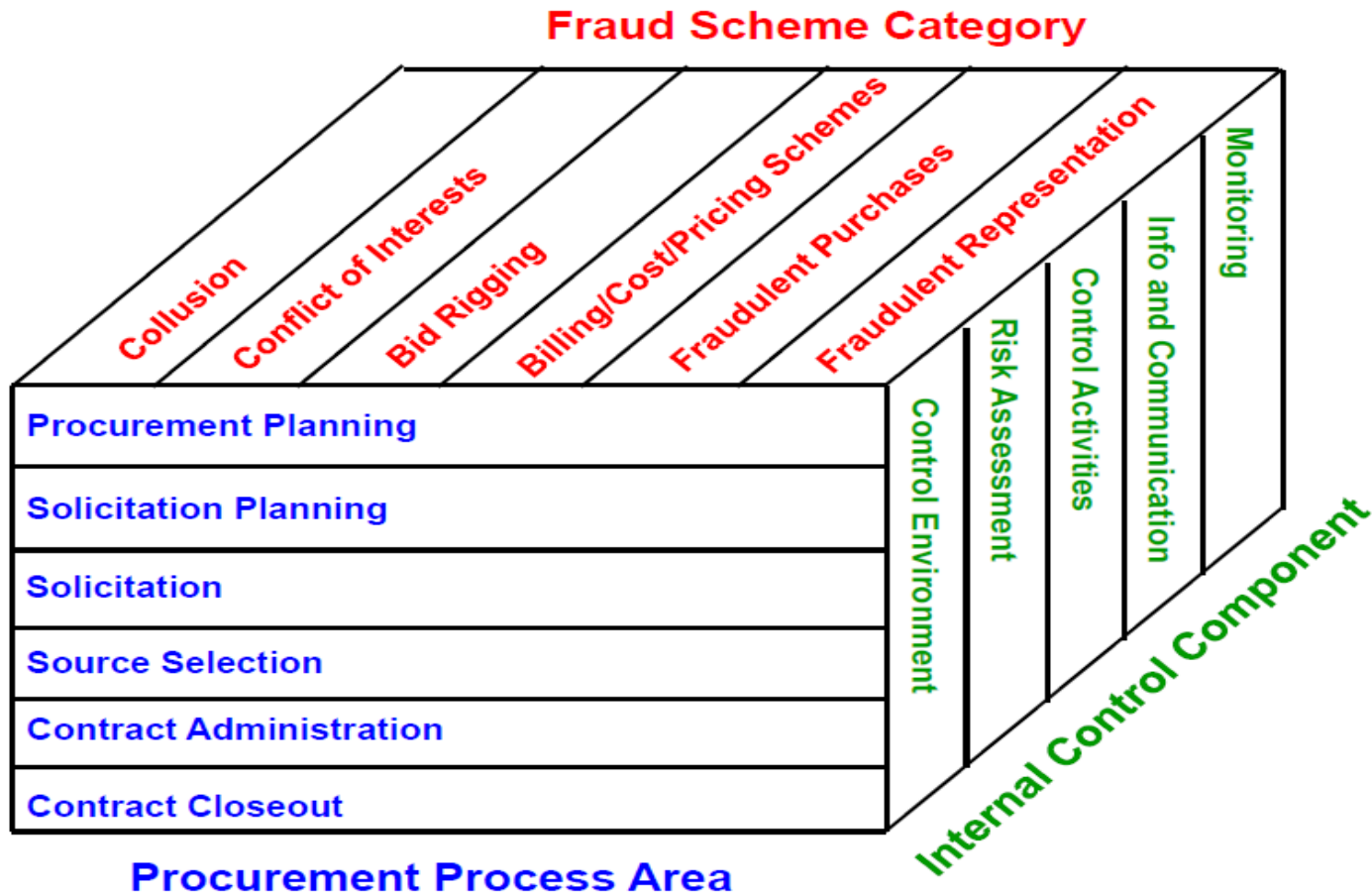
- The process of ‘making things auditable’ requires organizations to establish and actively manage a knowledge management system supporting its governance of processes and practices [Power, (1996), p. 289].
- The procurement function must be managed with integrity, accountability, and transparency (Cohen & Eimicke, 2008; GAO, 2011; Thai, 2004)

Auditability Triangle



(Rendon & Rendon, 2015)

Procurement Fraud Matrix





Research Purpose:

The purpose of this research is to:

(1) assess Navy contracting officers' knowledge levels of:

(a) contract management processes

(b) internal controls

(c) procurement fraud schemes

(2) analyze their perceptions regarding their organization's vulnerability to procurement fraud



Research Questions:

1. What are the Navy contracting officers' knowledge levels of contract management processes, internal control components, and procurement fraud schemes?
2. What are the Navy contracting officers' perceptions of their organization's vulnerabilities to procurement fraud related to contract management processes, internal control components, and procurement fraud schemes?



Previously Developed Web-based Survey:

- 27 knowledge-based assessment questions
- 3 perception questions regarding the organization's vulnerability to procurement fraud

Survey administered to Navy Contracting Officers

- Total eligible participants: 84
- Total surveys completed: 32
- Response rate: 38%
- Average overall knowledge score: 58%



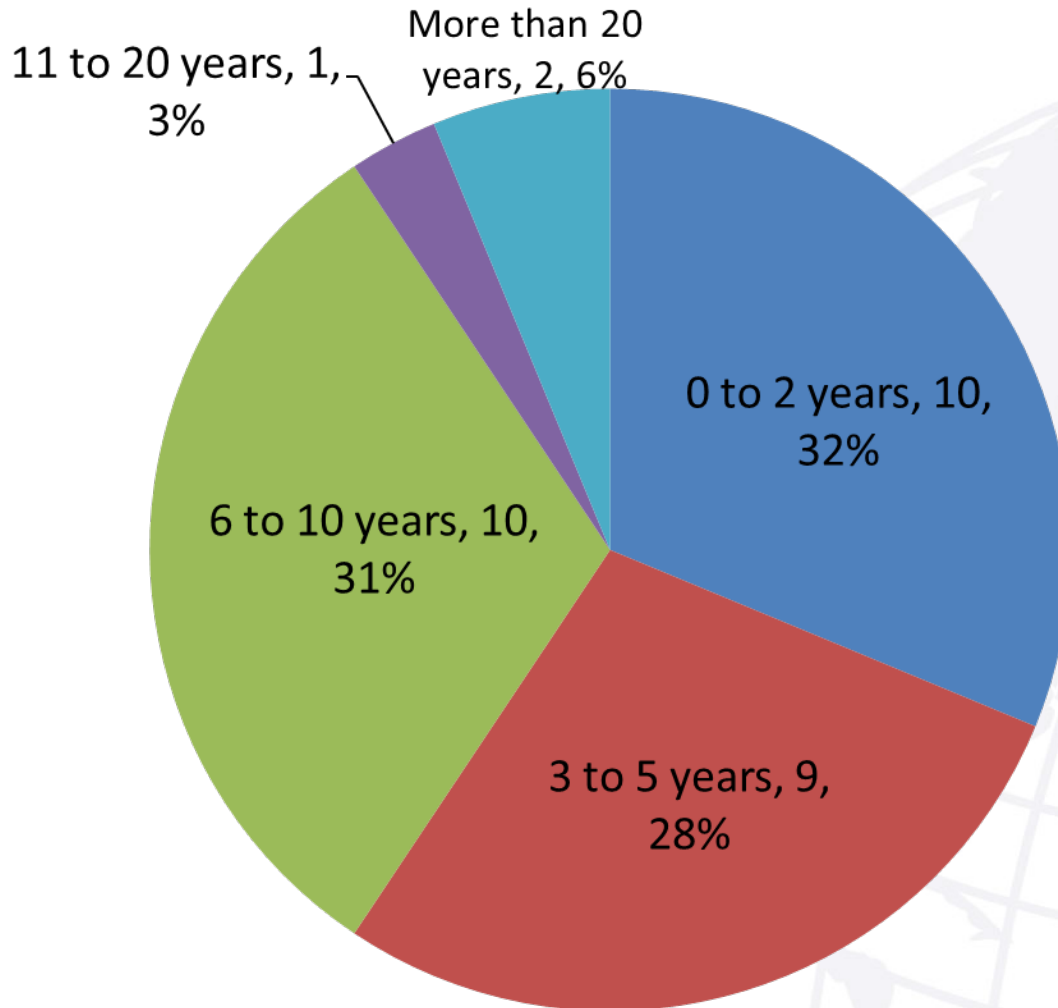
Research Methodology (cont.)

Assessment Tool Items by Categories

Contracting Phase	Number of Questions	Procurement Scheme Category	Number of Questions	Internal Control Component	Number of Questions
Procurement Planning	5	Collusion	3	Control Environment	4
Solicitation Planning	5	Conflict of Interest	6	Risk Assessment	6
Solicitation	5	Bid Rigging	6	Control Activities	6
Source Selection	5	Billing/Cost/Pricing Schemes	5	Information and Communications	4
Contract Administration	5	Fraudulent Purchases	3	Monitoring	7
Contract Closeout	2	Fraudulent Representation	4		
Total	27	Total	27	Total	27

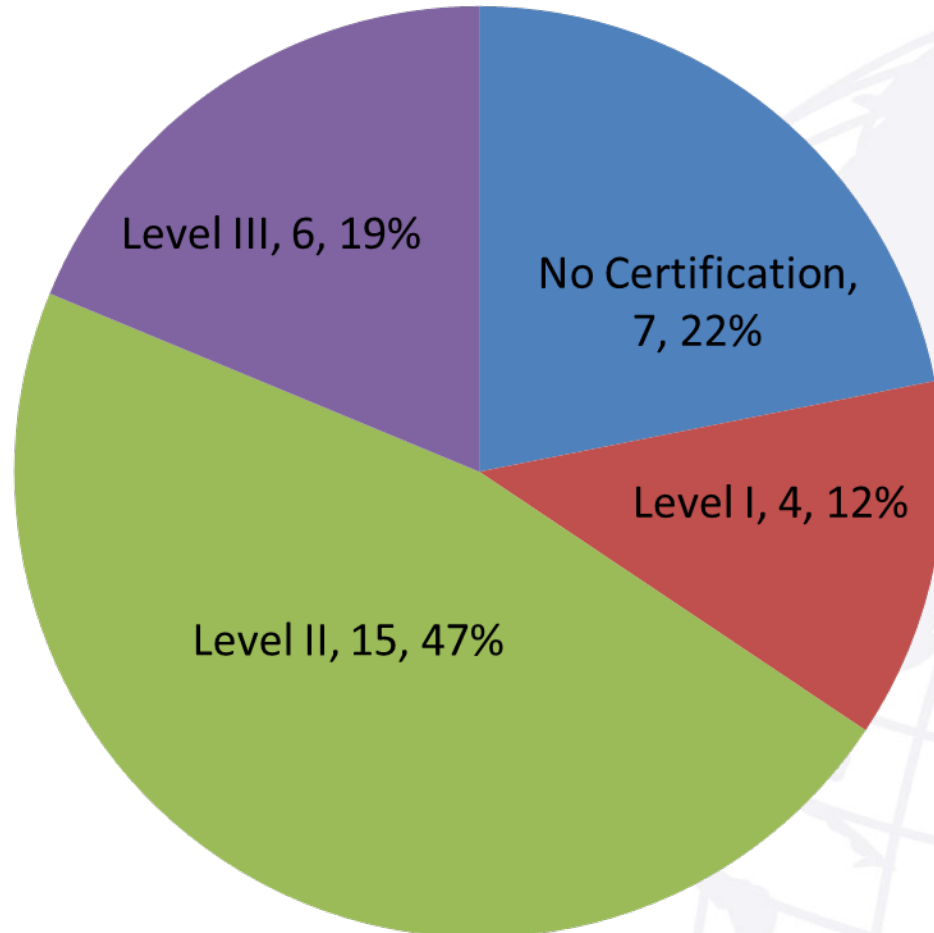


Number of Participants by Work Experience Group



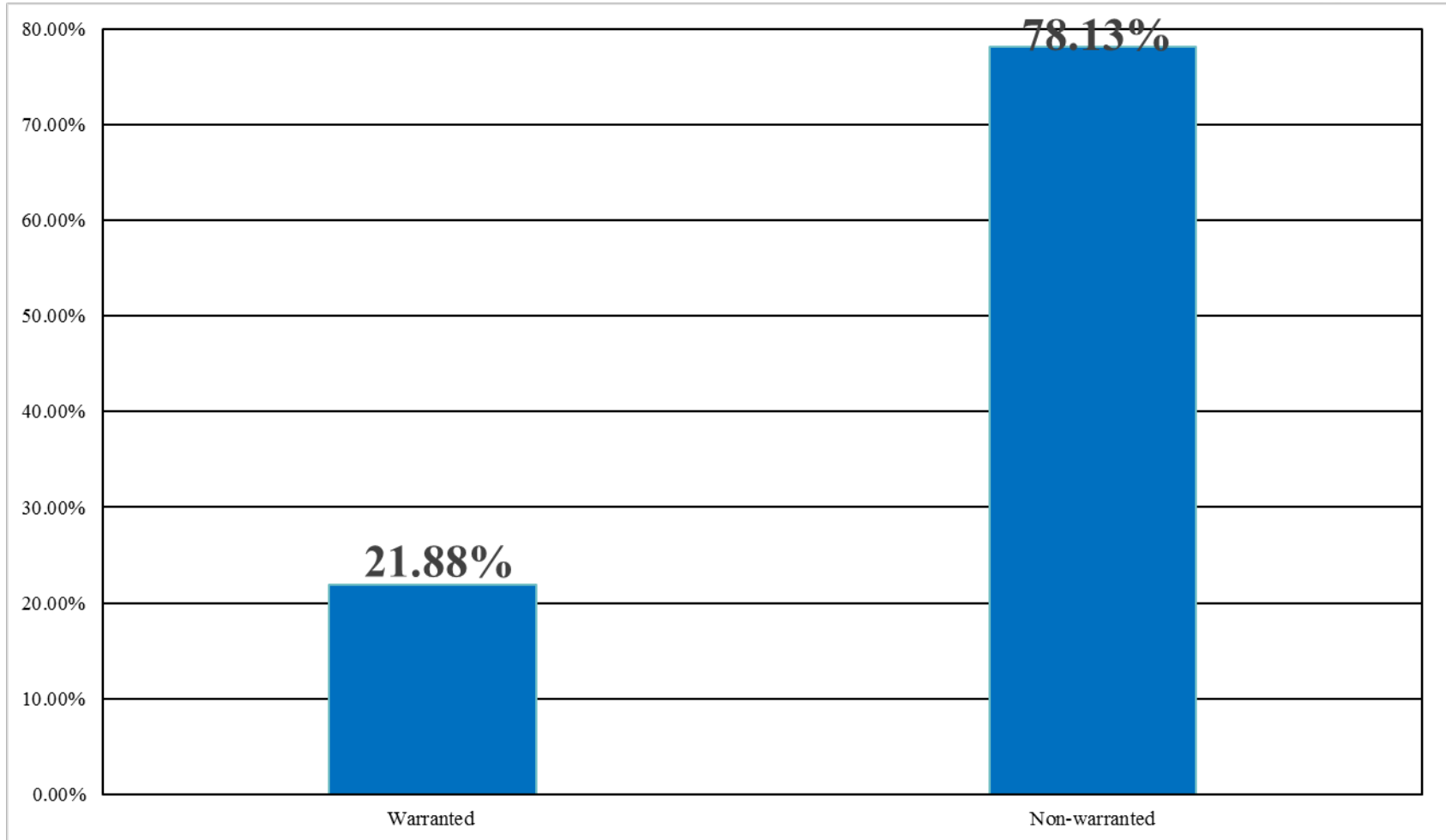


Number of Participants by DAWIA Certification Level



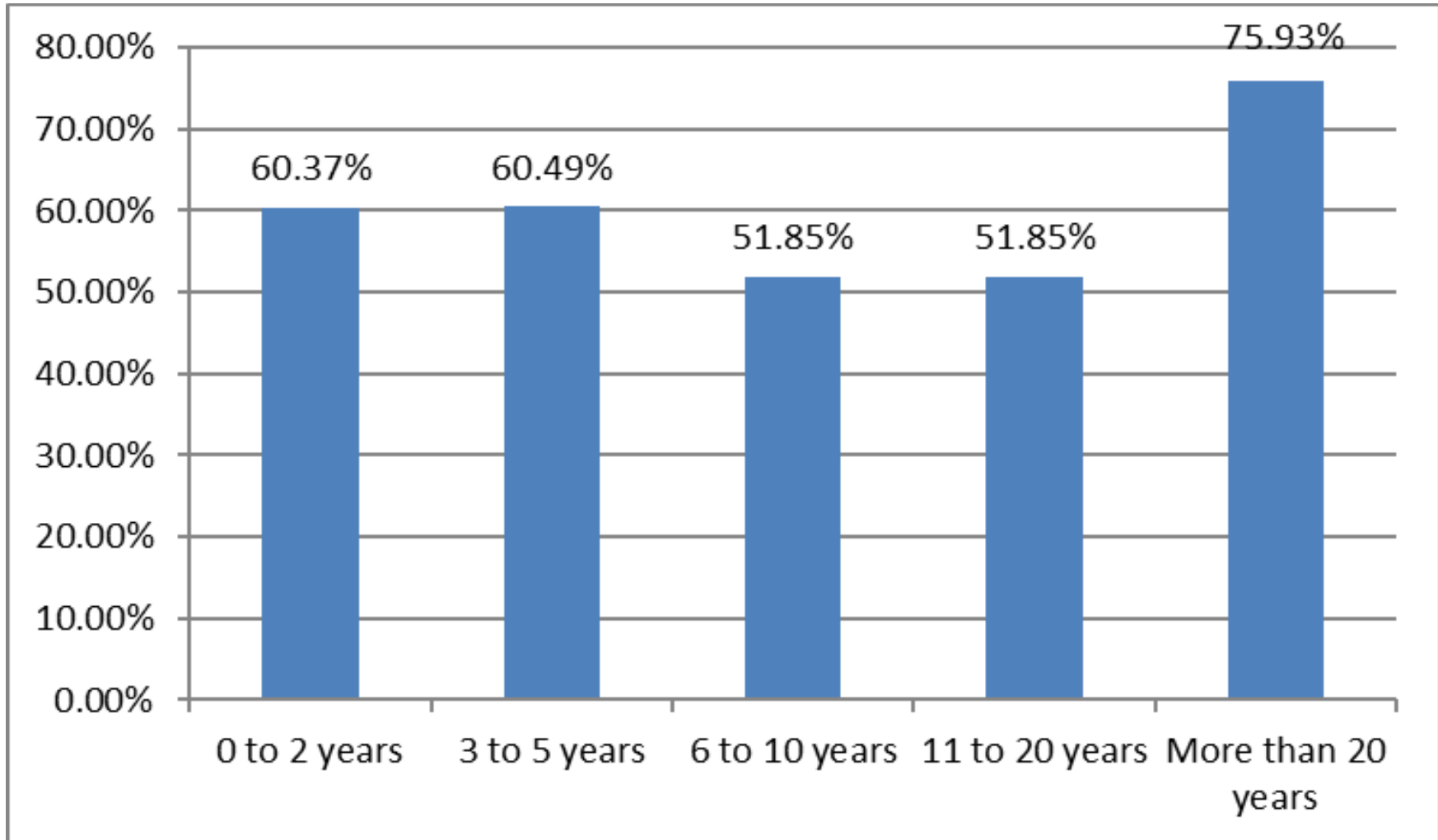


Number of Participants by Warrant Status



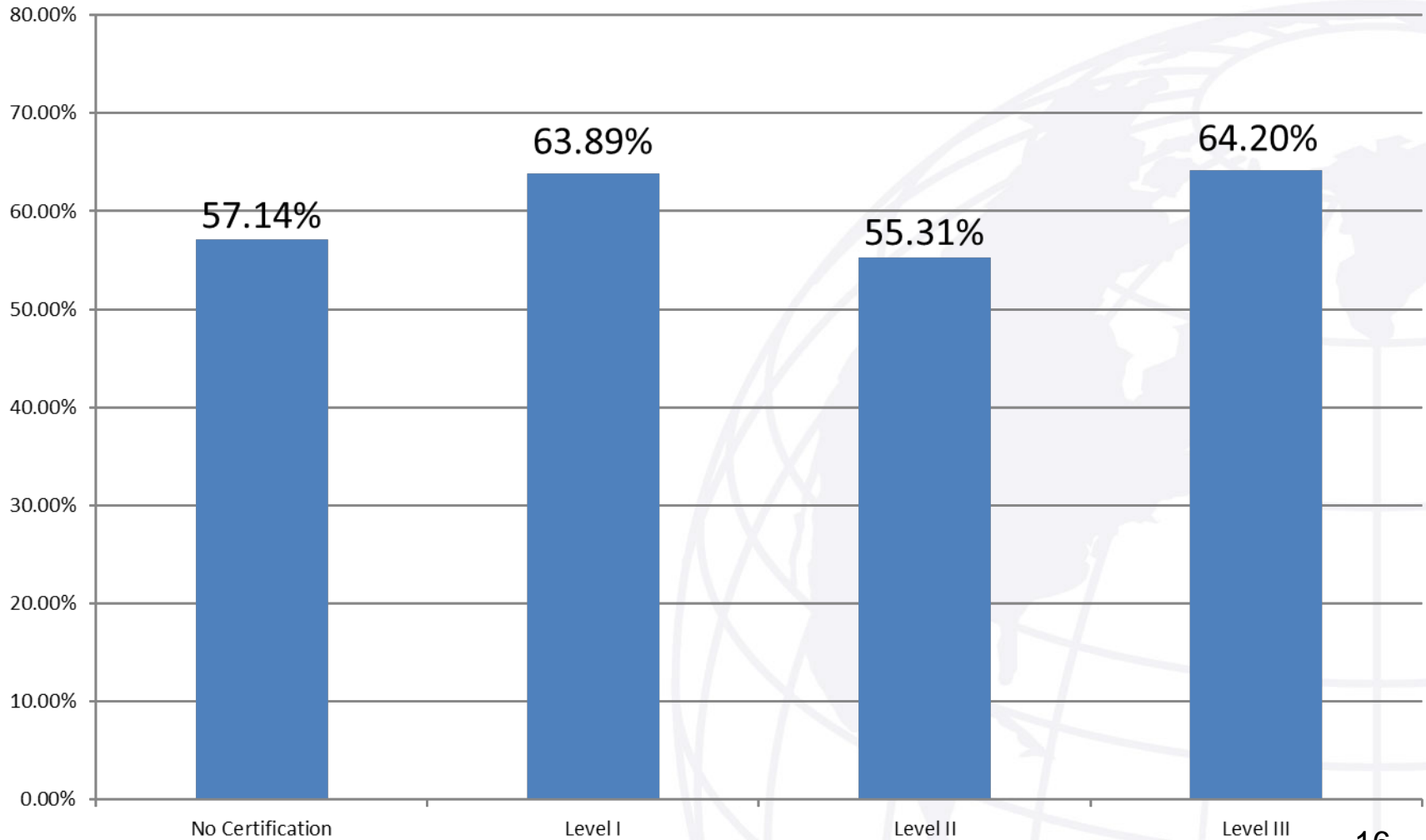


Average Score by Work Experience Group



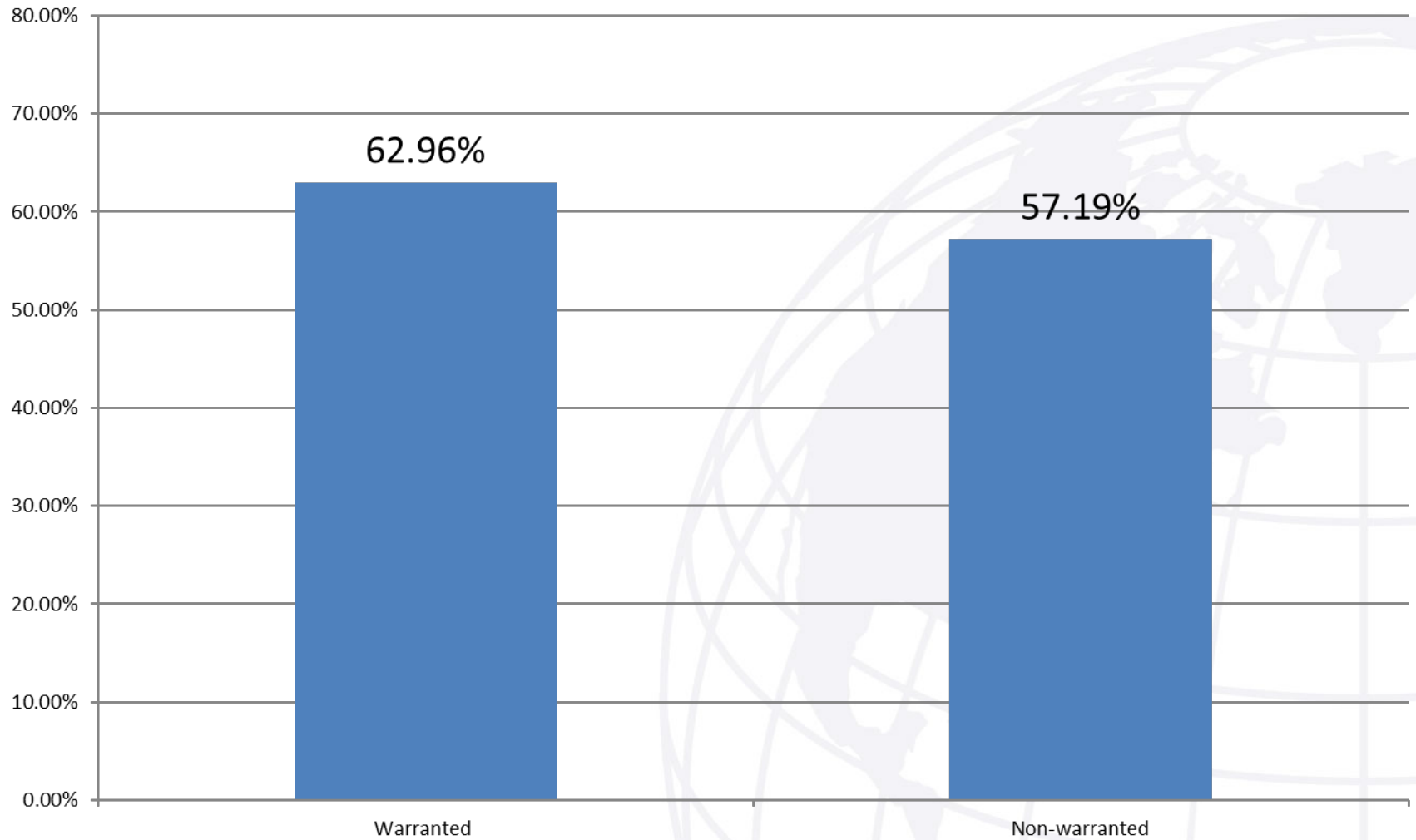


Average Score By DAWIA Certification Level



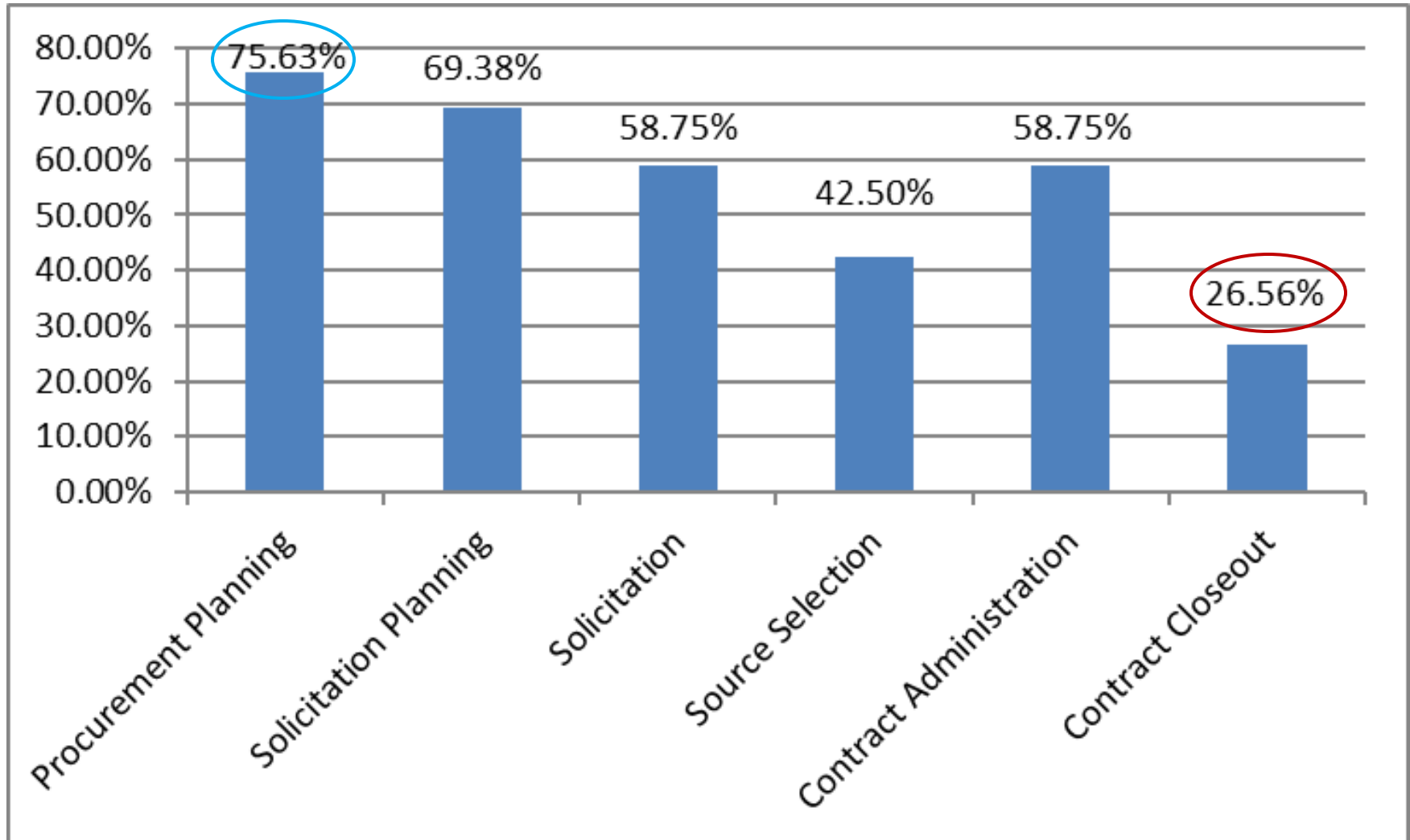


Average Score by Warrant Status



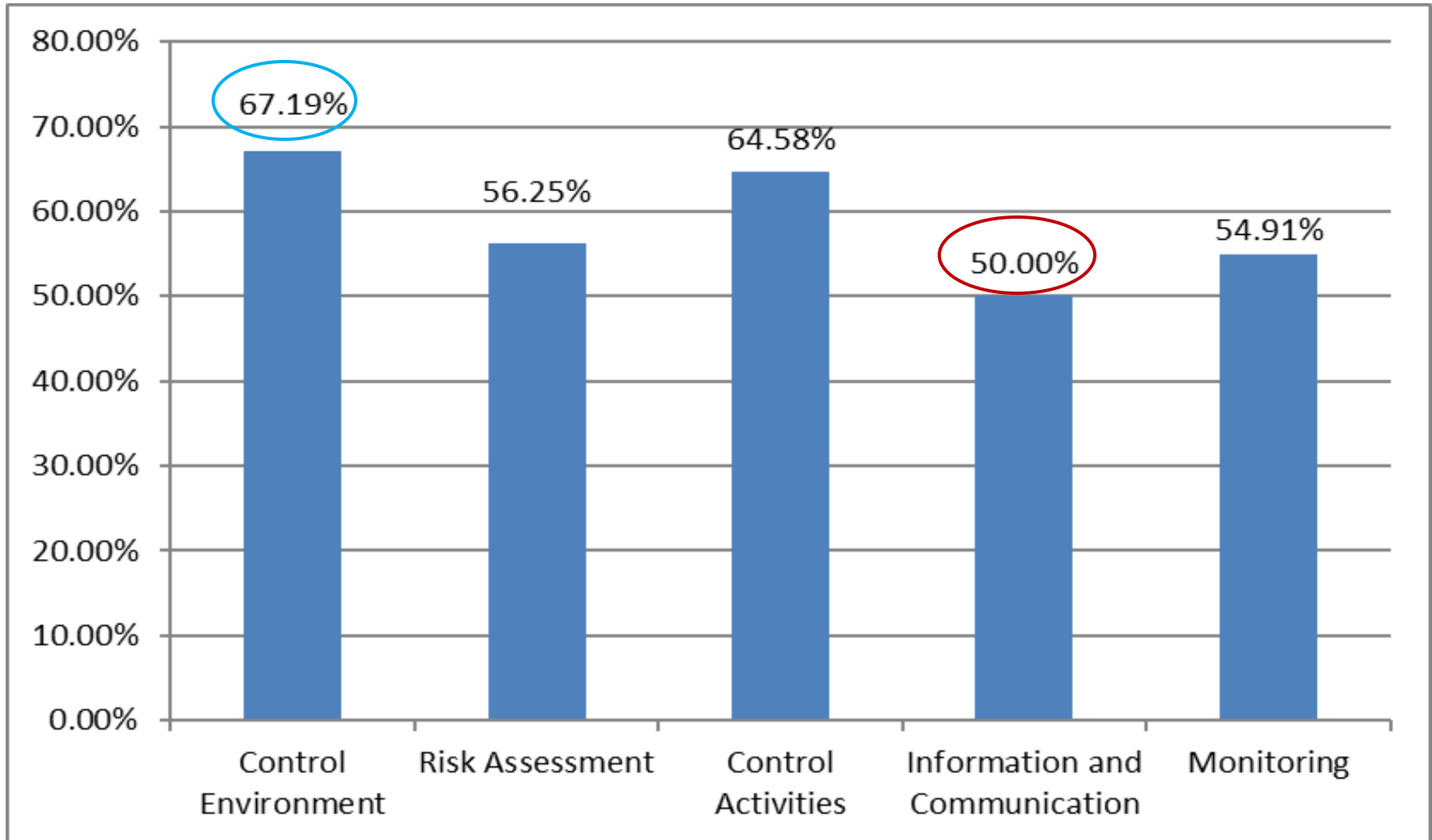


Average Score by Contract Management Process



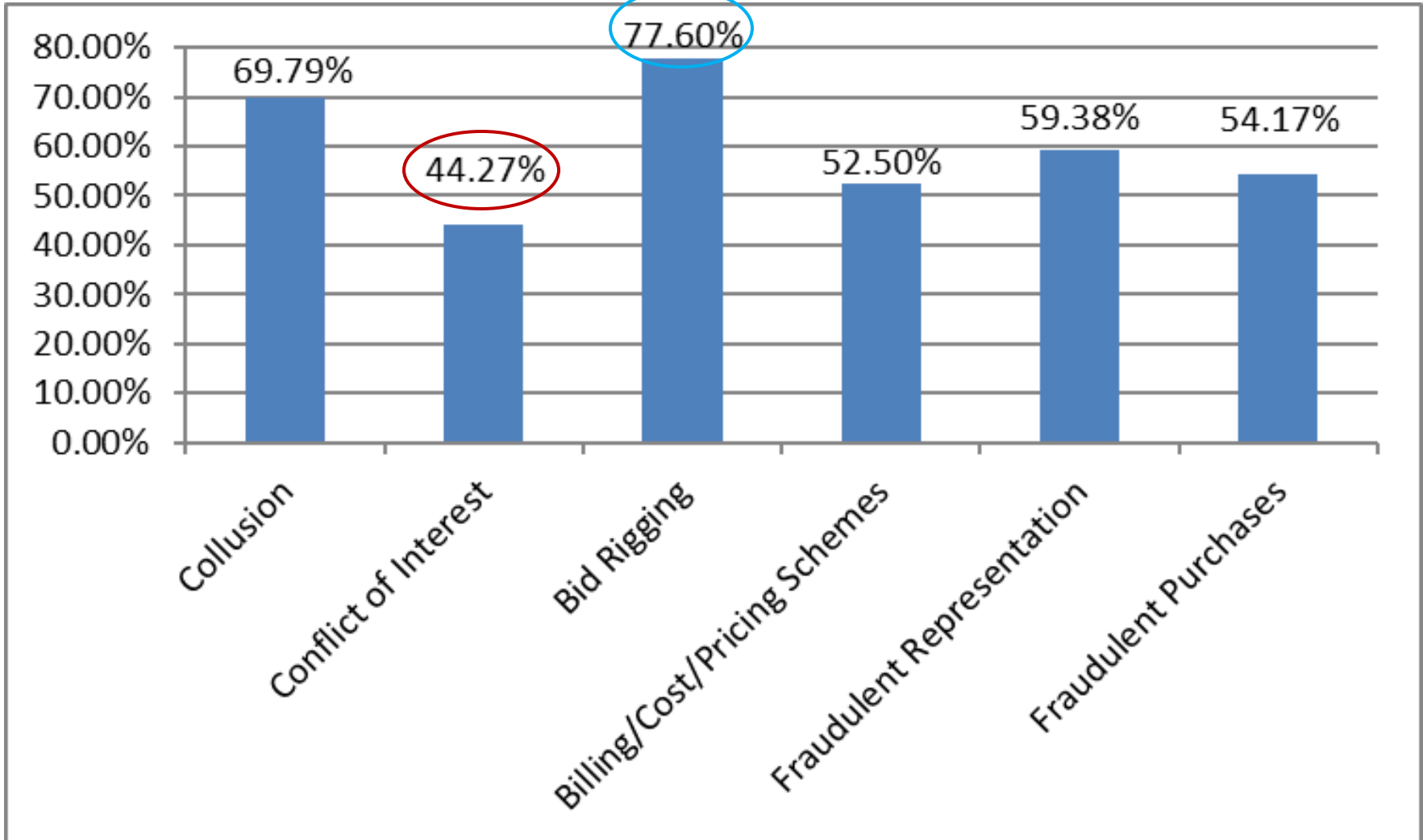


Average Score by Internal Control Component



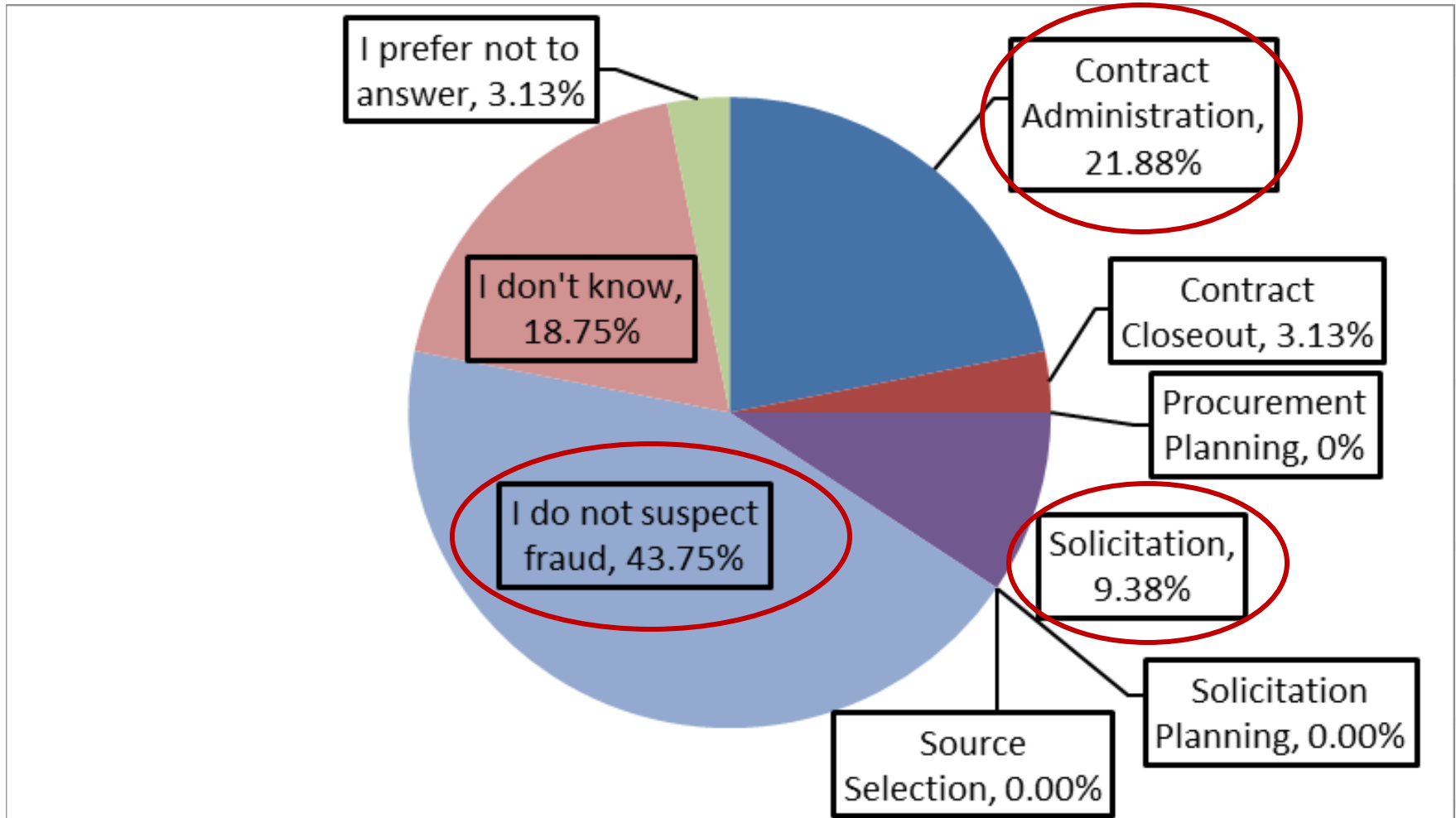


Average Score by Procurement Fraud Scheme



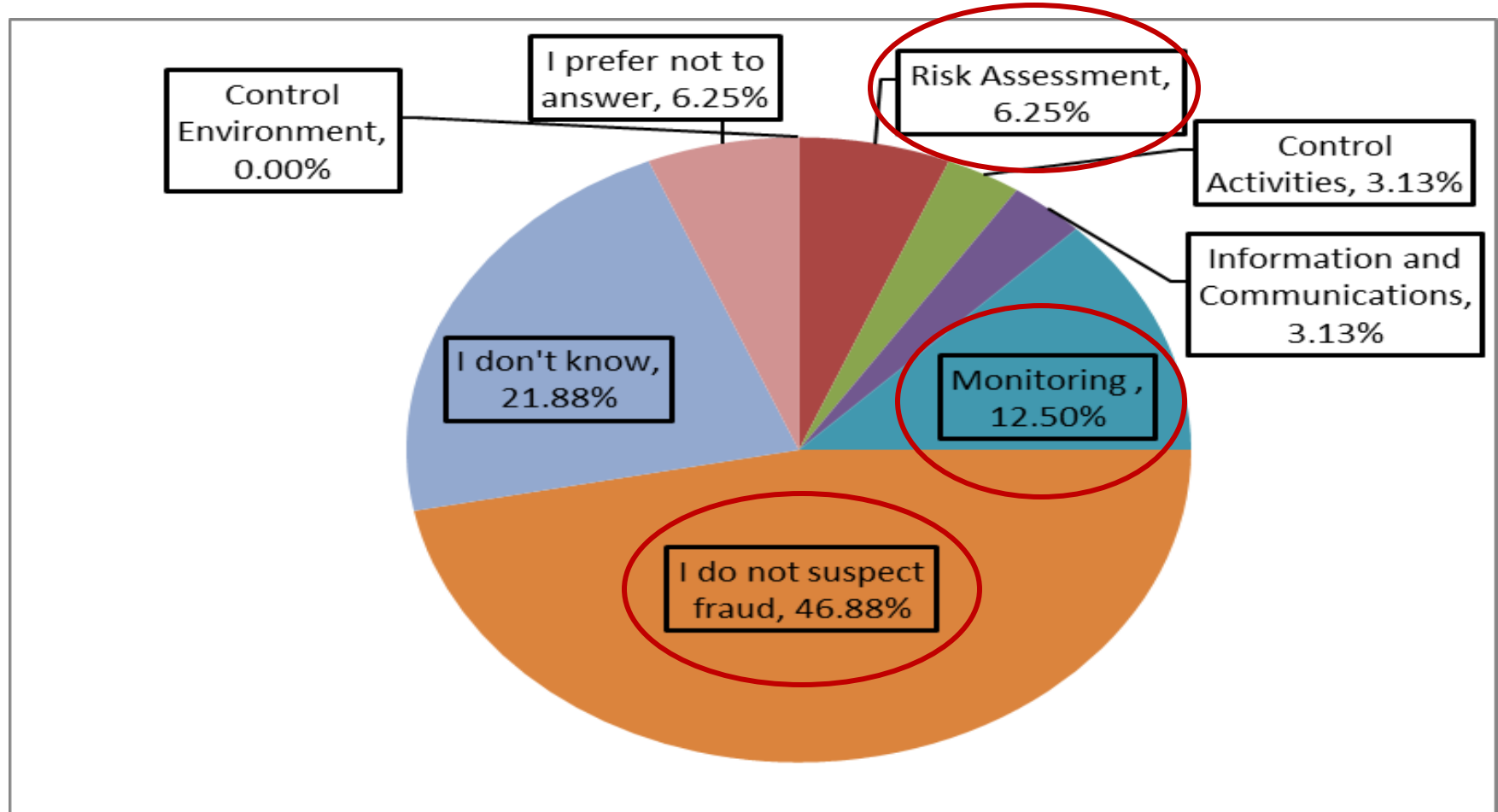


Perceptions of Contract Management Process Fraud Vulnerability



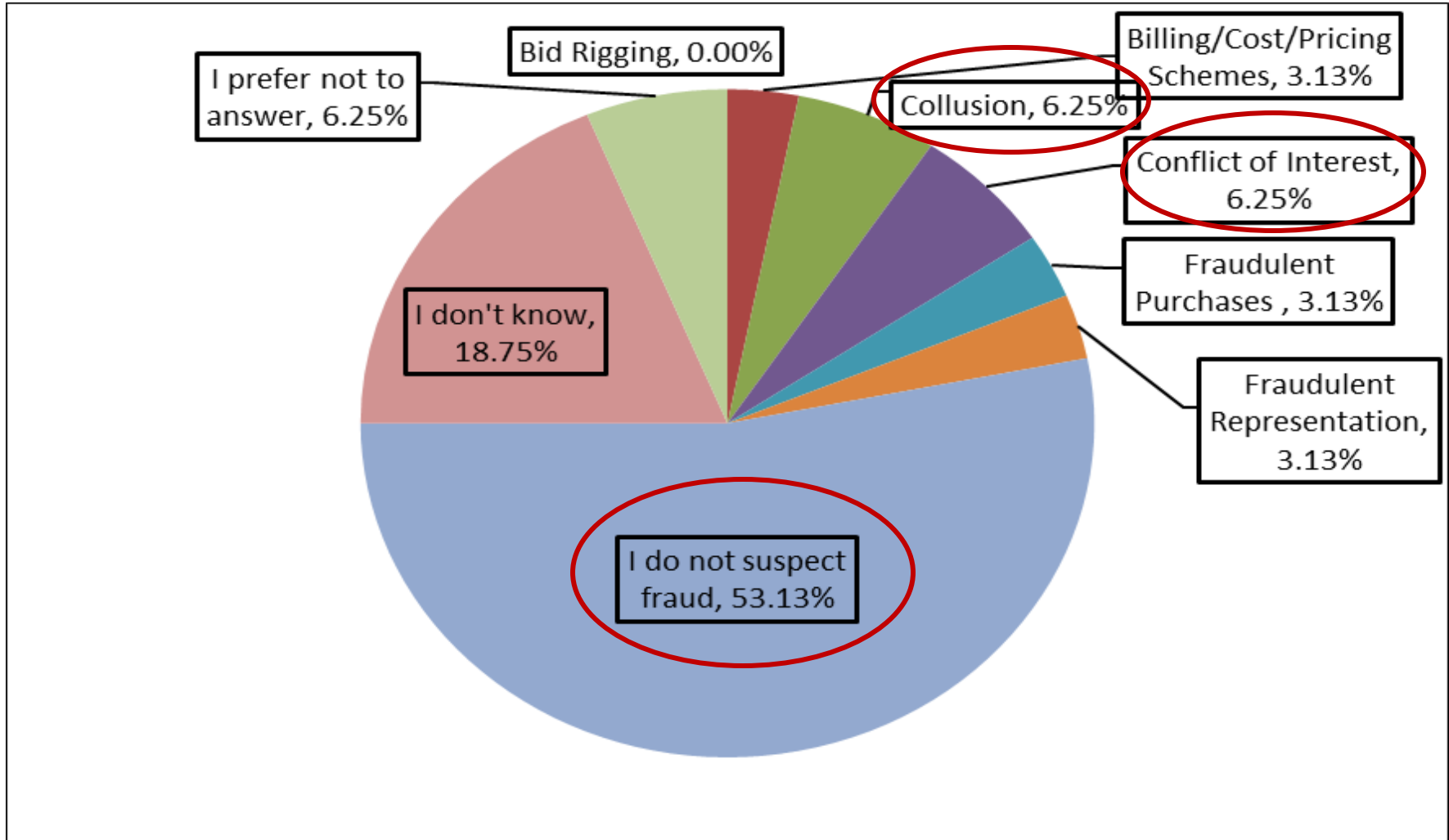
Which contracting phase is most vulnerable to fraudulent activity in your organization?

Perceptions of Internal Control Component Fraud Vulnerability



Which internal control component is suspected to be the most vulnerable for fraudulent activity in your organization?

Perceptions of Procurement Fraud Scheme Fraud Vulnerability



To which procurement fraud scheme is your organization most susceptible?



Research Findings (cont.)

RQ #1: What are the Navy contracting officers' knowledge levels of contract management processes, internal controls, and procurement fraud schemes?

Contract Management Process	Avg. Score	Internal Control Components	Avg. Score	Procurement Fraud Scheme	Avg. Score
Procurement Planning	75.63%	Control Environment	67.19%	Bid Rigging	77.60%
Solicitation Planning	69.38%	Control Activities	64.58%	Collusion	69.79%
Solicitation	58.75%	Risk Assessment	56.25%	Fraudulent Representation	59.38%
Contract Administration	58.75%	Monitoring Activities	54.51%	Fraudulent Purchases	54.17%
Source Selection	42.50%	Information & Communication	50.00%	Billing/Cost/Pricing Schemes	52.50%
Contract Closeout	26.56%			Conflict of Interest	44.27%



RQ #2: What are the Navy contracting officers' perceptions of their organization's vulnerabilities to procurement fraud related to contract management processes, internal control components, and procurement fraud schemes?

	Area Most Susceptible to Fraud	Next Area Most Susceptible to Fraud	I Do Not Suspect Fraud	I Do Not Know	I Prefer Not To Answer
Contract Management Process	Contract Administration (21.88%)	Solicitation (9.38%)	43.75%	18.75%	3.13%
Internal Control Component	Monitoring (12.50%)	Risk Assessment (6.25%)	46.88%	21.88%	6.25%
Procurement Fraud Scheme	Collusion (6.25%)	Conflict of Interest (6.25%)	53.13%	18.75%	6.25%



Implications of Findings

- Navy contracting officers appear to have a knowledge deficiency in the areas of contract management processes (phases), internal controls, and procurement fraud schemes as related to procurement fraud.
- Navy contracting officers **scored low** on the knowledge-based survey questions, yet their **perceptions were high** regarding their organization **not being vulnerable to fraud.**



Implications of Findings (cont.)

- Navy contracting officers' **limited knowledge of procurement fraud** in relation to contract management processes, internal control components, and procurement fraud schemes, and their **perceptions** that their organization is **not susceptible to fraud** may indicate that the organization could in fact be vulnerable to some form of **procurement fraud**.



- (1) Defense Acquisition University (DAU) should consider incorporating auditability theory (competent personnel; capable processes, and effective internal controls) as well as the procurement fraud matrix coverage in mandatory contracting curriculum.
- (2) Navy and DOD agencies should consider placing serious emphasis on educating contracting professionals regarding procurement fraud schemes and fraud awareness as it relates to audit readiness.



- Auditability theory along with the procurement fraud matrix information may provide DOD agencies with conceptual frameworks to aid in establishing and increasing auditability in their agencies to help deter procurement fraud.
- As defense organizations continue to strive for **accountability, integrity, and transparency** in their procurement operations, **auditability** will continue to increase in importance.



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